

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

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P R 261825Z JUN 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 4129

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 4685

E.O.11652: N/A

TAGS: EFIN, BR, EGEN, BTRD

SUBJECT: BRAZIL TAKES MEASURES TO LIMIT IMPORTS AND IMPROVE BALANCE
OF PAYMENTS

1. SUMMARY: BRAZIL'S TRADE BALANCE HAS DETERIORATED BEYOND
OFFICIAL EXPECTATIONS. EXPORTS HAVE LAGGED DURING THE
FIRST FIVE MONTHS WHILE NON-OIL IMPORTS HAVE EXCEEDED
OFFICIAL PROJECTIONS. AS A RESULT, THE ECONOMIC DEVELOPMENT
COUNCIL, MEETING IN SPECIAL SESSIONS ON JUNE 24, TOOK
A NUMBER OF ACTIONS TO REDUCE THE RAPIDLY GROWING IMPORT
BILL AND FOREIGN TRAVEL EXPENDITURES. IMPORTS OF ITEMS
CRITICAL TO PRODUCTION ARE NOT AFFECTED BY NEW MEASURES. IN PARALLEL
ACTION THE CENTRAL BANK ANNOUNCED THE FIFTH DEVALUATION
OF THE CRUZEIRO THIS YEAR, BRING THE CUMULATIVE DEVALUATION
TO 9.63 PERCENT. THE GOB EXPORT TARGET OF \$8.0 BILLION
FOR 1974 NOW APPEARS DIFFICULT TO OBTAIN. WE BELIEVE THE
IMPORT RESTRICTING MEASURES WILL HAVE ONLY A MINIMAL IMPACT
ON THE TRADE BALANCE AS THEY PROBABLY AFFECT LESS THAN 10 PERCENT
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OF TOTAL IMPORTS. FOR GOVERNMENT REALLY TO MAKE A DENT

IN THE IMPORT BILL THIS YEAR, IT WOULD HAVE TO REASSESS ITS POLICY OF GIVING FAVORABLE TREATMENT TO CAPITAL GOODS IMPORTS. HOWEVER, THE GOVERNMENT WILL NOT LIMIT THESE IMPORTS, BECAUSE OF ADVERSE IMPACT ON ECONOMIC GROWTH, UNLESS IT IS COMPELLED TO DO SO BY BALANCE OF PAYMENTS CONSTRAINTS. AND WHILE THE TRADE BALANCE HAS DETERIORATED, THE OVERALL BALANCE IS STILL SUSTAINABLE SO THAT A REDUCTION IN ECONOMIC GROWTH AT THIS TIME DOES NOT APPEAR TO BE REQUIRED. FINANCE MINISTER SIMONSEN JUSTIFIES IN PART NEW RESTRICTIVE MEASURES ON GROUNDS THAT EXPORT GROWTH BEING HINDERED BY OBSTACLES TO BRAZILIAN EXPORTS IN DEVELOPED COUNTRIES. END SUMMARY.

2. IN A SPECIAL MEETING OF THE ECONOMIC DEVELOPMENT COUNCIL, CDE, CHAIRED BY PRESIDENT BEISEL ON JUNE 24, NEW IMPORT RESTRICTIONS FOR "NON-ESSENTIAL" GOODS WERE ANNOUNCED. THESE INCLUDED:

A. CANCELLATION OF A SERIES OF TARIFF EXEMPTIONS AND RAISING DUTIES 100 PERCENTAGE POINTS ON SELECTED NON-ESSENTIAL PRODUCTS.

B. WITH CERTAIN EXCEPTIONS, IMPORTS BEARING A 55 PERCENT OR HIGHER DUTY MUST BE PAID FOR IN CASH.

C. IMPORTS OF CIVIL AIRCRAFT FOR PRIVATE OR GOVERNMENT USE MUST HAVE PRIOR APPROVAL OF COTAC OF MINISTRY OF AVIATION. COTAC WILL TAKE INTO ACCOUNT LOCAL PRODUCTION AS WELL AS IMPORT NEEDS.

REPORTEDLY SOME 400 PRODUCTS WILL BE AFFECTED BY THE NEW IMPORT RESTRICTIONS, INCLUDING SUCH CONSUMER ITEMS AS PACKAGED FOODSTUFFS, COSMETICS, DOMESTIC ELECTRONIC ITEMS, LEATHER GOODS, ALCOHOLIC BEVERAGES, SOME FRESH FOODS (INCLUDING APPLES AND PEARS), AND GENERAL AVIATION AIRCRAFT.

3. WHILE THE CDE WAS TAKING ACTION TO FURTHER RESTRICT IMPORTS OF NON-ESSENTIAL ITEMS, THE COUNCIL ON CUSTOMS POLICY (CPA) DECREED THAT DUTY-FREE IMPORTS OF SELECTED ITEMS ESSENTIAL TO MAINTAINING DOMESTIC PRODUCTION, SUCH AS MOTORS AND PARTS FOR AGRICULTURE TRANSPORT EQUIPMENT, WOULD BE MAINTAINED. SELECTED TIRE LIMITED OFFICIAL USE

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SIZES FOR BUSES AND TRUCKS WOULD ALSO BE PERMITTED DUTY-FREE ENTRY UNTIL DECEMBER 31, 1974. TARIFFS COVERED BY LAFTA AND GATT AGREEMENTS ARE EXEMPTED FROM NEW MEASURES.

4. THE POOR PERFORMANCE OF EXPORTS DURING THE FIRST FIVE MONTHS -- AND MORE PARTICULARLY IN MAY -- COMBINED WITH A GROWTH OF TOTAL IMPORTS EXCEEDING 100 PERCENT HAVE APPARENTLY BECOME A CAUSE OF CONCERN TO THE GOB.

ACCORDING TO PRELIMINARY DATA, EXPORTS DURING JANUARY/MAY WENT UP BY 18.96 PERCENT OVER SAME PERIOD LAST YEAR, WHICH WAS WELL BELOW THE 28.26 PERCENT GROWTH REGISTERED DURING JANUARY/APRIL. TOTAL EXPORTS DURING THE FIRST FIVE MONTHS AMOUNTED TO \$2,471 MILLION, AND COMPARED TO \$2,077 MILLION THE SAME TIME LAST YEAR. IMPORTS AT THE END OF MAY WERE REPORTED TO HAVE REACHED \$4,571 MILLION, THUS BRINGING THE TRADE DEFICIT FOR THE FIRST FIVE MONTHS TO \$2,100 MILLION. THE RATE OF THE GROWTH IN THE DEFICIT WILL DOUBTLESSLY LEVEL OFF WITH THE ONSET OF THE HIGH AGRICULTURAL EXPORT SEASON, PROBABLY REACHING A TOTAL 1974 DEFICIT OF ABOUT \$3.0 BILLION OR MORE, COMPARED TO BEGINNING OF THE YEAR PROJECTIONS OF \$1.0 - 1.5 BILLION DEFICIT.

5. ON A MONTHLY AVERAGE, EXPORTS THROUGH MAY AMOUNTED TO \$494 MILLION. TO MEET THE \$8.0 BILLION TARGET SET BY THE GOB, MONTHLY EXPORTS FROM JUNE TO DECEMBER WOULD NEED TO JUMP TO \$790 MILLION OR TO A LEVEL 60 PERCENT HIGHER THAN THAT EXPERIENCED THROUGH MAY. THE POOR SHOWING OF AGRICULTURAL PRODUCTS TO DATE IS THE MAJOR REASON FOR THE LAG IN TOTAL EXPORTS. IN VALUE TERMS, AGRICULTURAL PRODUCTS WERE DOWN 3.68 PERCENT JANUARY/MAY OVER THE SAME PERIOD LAST YEAR. THIS DECLINE IS ATTRIBUTABLE TO A DROP IN EXPORT VOLUME SINCE AVERAGE EXPORT PRICES THIS YEAR FOR PRACTICALLY ALL OF BRAZIL'S AGRICULTURAL EXPORTS WERE WELL ABOVE THAT OF 1973.

6. THE CENTRAL BANK ANNOUNCED EFFECTIVE JUNE 25 DEVALUATION OF CRUZEIRO BY 2.03 PERCENT VIS-A-VIS US DOLLAR, BRINGING THE CUMMULATIVE DEVALUATIONS SO FAR THIS YEAR TO 9.63 PERCENT. THIS FIFTH DEVALUATION FOLLOWED THE LAST SUCH CHANGE BY ONLY 20 DAYS AND, FOR THE SECOND TIME THIS YEAR, THE INTERVAL BETWEEN DEVALUATIONS HAS LIMITED OFFICIAL USE

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BEEN CONSIDERABLY SHORTER THAN THE NORMAL 40-60 DAYS. (IN FEBRUARY THERE WAS ANOTHER DEVALUATION WITH A 10-DAY INTERVAL.) NEW RATES ARE 6.775 FOR BUYING AND 6.815 FOR SELLING DOLLARS.

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7. FINANCE MINISTER SHIMONSEN IN HIS PUBLISHED MESSAGE TO PRESIDENT GEISEL EMBODYING NEW RESTRICTIVE MEASURES ON IMPORTS NOTED THAT THESE ACTIONS ARE JUSTIFIED IN PART BY THE SLOWER EXPORT GROWTH RESULTING FROM OBSTACLES IMPOSED BY DEVELOPED COUNTRIES WHERE IT WOULD BE POSSIBLE TO PLACE BRAZILIAN EXPORTS.

8. COMMENT: THE DETERIORATION OF THE TRADE BALANCE TO DATE HAS SURPASSED EARLY OFFICIAL EXPECTATIONS. GIVEN THE EXPORT PERFORMANCE THROUGH MAY, THE GOB EXPORT TARGET OF \$8.0 BILLION FOR 1974 NOW APPEARS DIFFICULT TO OBTAIN. TO MEET THIS OBJECTIVE, EXPORTS ON A MONTHLY BASIS DURING THE NEXT SEVEN MONTHS WOULD HAVE TO BE ABOUT 60 PERCENT HIGHER THAN THEY HAVE BEEN. THIS SEEMS UNLIKELY GIVEN THE FACT THAT THE POOR SHOWING THROUGH MAY IS ATTRIBUTABLE TO A GREAT EXTENT TO LACK OF ADEQUATE SUPPLY AVAILABILITIES. ON THE IMPORT SIDE, THE GOVERNMENT DID NOT PROJECT THE SURGE IN NON-OIL IMPORTS EXPERIENCED THROUGH MAY. THE GOVERNMENT FEELS THAT PART

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OF THIS EXPANSION MAY BE ATTRIBUTABLE TO SPECULATIVE OR ANTICIPATORY BUYING WHICH WOULD HOPEFULLY TAPER OFF IN COMING MONTHS. HOWEVER, IT IS NOT TAKING ANY CHANCES AND STEPS HAVE BEEN TAKEN TO LIMIT THE INFLOW OF MANY CONSUMER GOODS, WHICH WOULD HAVE ONLY MINIMAL IMPACT

ON THE ECONOMY'S ABILITY TO GROW AT AN ACCELERATED RATE.
WE BELIEVE THAT THESE MEASURES WILL ALSO HAVE LIMITED
IMPACT ON THE IMPORT BILL, SINCE THEY PROBABLY AFFECT LESS
THAT 10 PERCENT OF TOTAL IMPORTS, WHICH INCLUDES IMPORTS
COVERED BY LAFTA AND GATT AGREEMENTS, NOT AFFECTED BY NEW
MEASURES. (WE WILL BE MAKING DETAILED ANALYSIS OF TRADE
IMPACT OF NEW MEASURES, INCLUDING SIGNIFICANCE FOR US EXPORTS.)

9. IF THE GOVERNMENT INTENDS TO CUT SIGNIFICANTLY INTO
THE TOTAL IMPORT BILL, IT WOULD HAVE TO REASSESS ITS
POLICY OF GIVING PREFERABLE TREATMENT TO CAPITAL EQUIPMENT
IMPORTS, WHICH THIS YEAR ARE PROJECTED AT CLOSE TO \$3.0
BILLION. HOWEVER, THESE IMPORTS ARE UNLIKELY TO BE
LIMITED UNTIL THE GOVERNMENT HAS NO CHOICE BUT TO SLOW
DOWN THE GROWTH RATE BECAUSE OF BALANCE OF PAYMENTS
CONSTRAINTS. WHILE THE TRADE DEFICIT HAS GROWN CONSIDERABLY
WE FEEL THAT THE OVERALL BALANCE OF PAYMENTS SITUATION
CONTINUES TO BE SUSTAINABLE -- MAINLY BECAUSE OF
CONTINUED CAPITAL INFLOWS -- AND THAT THE SITUATION HAS
NOT REACHED THE POINT WHERE A DECELERATION OF THE
GROWTH RATE IS REQUIRED. END COMMENT:
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